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Manual on the Total Income of Agricultural Households

A central aim of the Common Agricultural Policy, as stated in the Treaty of Rome, is to ensure a fair standard of living for the agricultural community.

In response to the needs of policy-makers and with the support of DG VI, Eurostat has initiated a project whose purpose is to assemble statistics on the total income of agricultural households on a harmonised basis. For various reasons information of this sort does not exist for Member States on a comparable basis.¹⁾ With the cooperation of the relevant statistical authorities in the Member States and the assistance of an external expert, Eurostat has developed a common methodology for this purpose. A Manual has been prepared containing the details of this methodology and is published in English, French and German (in one volume).²⁾

This Manual describes the methodology for measuring, within the framework of national accounts, the total income of agricultural households. It contains the target definitions and procedures which Member States have agreed to apply in their preparation of

harmonised estimates. These estimates are intended to allow the composition and development of disposable incomes of farmers to be monitored, and to provide a means by which their income situation relative to other socio-professional groups can be described.

1) A review of the existing information is given in a report for Eurostat by an external expert (Berkeley HILL, of Wye College, University of London) in Total Incomes of Agricultural Households, Theme 5, Series D. Eurostat, 1988.

2) Manual on the Total Income of Agricultural Households, Theme 5, Series E. Eurostat, 1990.

Background

One of the main data requirements for the CAP has been the need to establish reliable information on farmers' incomes. The approach which has been followed up to now is to measure the income arising from agricultural activity. However, it is increasingly evident that additional information is required on the overall income position of farmers and their families, to cover all sources of income and to allow for the deduction of negative items, such as taxation and social contributions.

The indicators of agricultural income at present in use by Eurostat (indicators, 1, 2 and 3) are based on the agricultural accounts framework. They use the concept of the *production branch*. This relates to the production of agricultural goods irrespective of the nature of the operators who produce them. These indicators do not correspond to the personal incomes of farmers and their households.

The new indicator of disposable income developed in this Manual corresponds with the residual in the Distribution of Income Accounts for the *sub-sector* of agricultural households. Within the European System of Integrated Accounts (ESA) framework institutional units are grouped into sectors on the basis of their principal function or principal resources. Households form one such sector. The Distribution of Income Accounts for the household sector covers all the resources flowing between them and other sub-sectors; on the positive side these include flows from independent and dependent activity, from property income, social receipts and so on, and on the negative side taxation, social contribution and other items. The balance is net disposable income. The ESA does not yet include separate accounts for sub-sectors, such as agricultural households. The new Manual sets out the methodology by

which an account for the agricultural household sub-sector can be established, in a harmonised manner, in Member States.

Objective

In specific terms, the objective of the new methodology is to generate an aggregate income measure, using harmonised methodology, in order to:

- (i) Monitor the year-to-year changes in the total disposable income of agricultural households at aggregate level in Member States.
- (ii) Monitor the changing composition of agricultural households' aggregate income, especially in terms of income from the agricultural holding, from other gainful activities, from property and from welfare transfers.
- (iii) Enable comparisons to be made in the development of household income among farmers and other socio-professional groups (based on incomes per household, per household member, and per consumer unit).
- (iv) Enable comparisons to be made between the absolute incomes of farmers and other socio-professional groups.

The content of this Manual

This Manual sets out the targets for a harmonised methodology. The main issues concern the definitions of income, what constitutes a household, and the method of classifying households as being agricultural or non-agricultural. An important feature of the methodology is that the target classification system treats households as agricultural if the main source of the entire household comes from independent activity in agriculture. It is

recognised that the targets may not be capable of complete achievement, at least in the early stages, and interim alternatives may be accepted, such as a classification system based on the main occupation of the head of the household. Nevertheless the target definitions indicate the direction in which any further changes in national procedures should move for the purpose of calculating aggregate disposable income.

The Manual shows that Member States are requested to supply not only estimates of disposable income but also the list of positive and negative items leading to its calculation. This degree of detail is sufficient to allow a

flexible presentation of data. In the short term flexibility will be necessary in order to facilitate the production of comparable figures in Member States. In the longer term this is also desirable because it permits the calculation of a range of income concepts, such as income before tax.

Use of methodology

Member States have already started to put the methodology into practice. After an experimental phase, during which verification will be undertaken, it is the intention of Eurostat to begin publishing results based on this methodology.

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